Think carefully before financing a vehicle

Only about half of people who apply to WesBank for vehicle finance actually get it. Of the rest, some will be among the 9.53 million South Africans who, according to Standard Bank, had poor credit records at the beginning of September. Others may be simply aiming too high because the vehicles they want are beyond their repayment capability.

The finance which banks may offer consumers is limited by the National Credit Act. Since its introduction in 2006, it has changed the way vehicles are financed. Where consumers once had to pay a 10% deposit and repay the balance within 48 months, today banks are no longer obliged to demand deposits (though they still do in about 25% of cases) and there is no limit on the repayment period. As a result of the latter change, banks report that most finance applications are for deals over 72 months.

The longer period may make monthly repayments more affordable but they also tie the customer in to the vehicle for longer. Many are able to trade in the vehicle before the due date, but for those who don't, there is the potential for added costs after the vehicles exceed warranties and service plans.

Cost of fuel

There's something else to consider when costing your vehicle, says WesBank sales and marketing head Chris de Kock - fuel. In 2010, it was estimated that petrol or diesel contributed 28% to the total ownership and running cost of an entry-level car financed over 60 months. By this year, that share was up to 37%. Over the same period, the share of finance repayments fell from 51% to 43%. In other words, the cost of fuel over those five years is nearly as much as you pay to own the vehicle.

Finally, say banks, think particularly carefully before committing to a 'balloon' deal. A balloon payment is an inflated final instalment - typically, equivalent to 25%-35% of the vehicle's value. In effect, it is a vehicle deposit deferred until the end of the finance period. The trouble is, as banks admit, that many customers don't understand balloons. All they can see is the opportunity to buy a shiny new car without having to put down a lump sum. What they don't consider are the possible problems five or six years down the line.

Customers are uninformed

When the finance period ends, they may find they still owe more than a quarter or even one-third of the original price of the car. De Kock calculates that someone buying a R200 000 car over six years with a 35% balloon, will still owe R70 000 at the end. Most people who fail to pay off the vehicle before then, refinance the outstanding debt over two years. So a six-year repayment becomes an eight-year one.

Wessel Steffens, Absa's head of vehicle and asset finance, says many balloon customers don't understand what they are getting themselves into. "This type of financial deal must be clearly communicated with the consumer before entering into an agreement." His Standard Bank counterpart, Sydney Soundy, agrees. "I don't think consumers understand balloons," he says. "Sales staff should take more time to explain."